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Annual Report  
Canada Southern Petroleum Ltd.  
1968  
YEAR ENDED JUNE 30



# Canada Southern Petroleum Ltd.

## BOARD OF DIRECTORS

ALAN S. ANDERSON

JOHN W. BUCKLEY

BENJAMIN W. HEATH

DONALD B. LAMONT

M. A. REASONER

## OFFICERS

JOHN W. BUCKLEY

*President*

M. A. REASONER

*Vice President & General Manager*

ROLAND J. RICHARDSON

*Vice President & Controller*

ARTHUR B. O'DONNELL

*Secretary & Treasurer*

K. ROSS JORDAN

*Assistant Secretary & Assistant Treasurer*

## AUDITORS

Arthur Young, Clarkson, Gordon & Co.

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Securities Transferred in the United States of America by  
The First Jersey National Bank, One Exchange Place, Jersey City, N. J. 07303  
and  
United California Bank, 108 West 6th Street, Los Angeles, Calif. 90054

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*Inquiries or requests for additional information concerning Canada Southern Petroleum Ltd.  
should be addressed to the Company in care of  
The First Jersey National Bank, One Exchange Place, Jersey City, N. J. 07303,  
or to 505 Eighth Avenue South West, Calgary, Alberta, Canada.*

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## PRESIDENT'S LETTER

### To the Shareholders:

The Company's financial statements for the year ended June 30, 1968, included with this report, reflect a total of working capital at the 1968 fiscal year end of approximately \$430,000. Subsequently, a significant increase in the amount of working capital available to the Company was accomplished through the success of the Rights Offering which commenced October 28, 1968.

As announced in the press on December 19, 1968, Shareholders exercised Rights for 1,259,050 Units, representing 87.4% of the total Units offered, thereby adding about \$3,449,000 to the Company's treasury. The Company thus is in excellent financial position to pursue its oil, gas and mineral exploration programs.

Through its active land acquisition program in the Canadian Arctic, which had its inception many years ago, the Company also finds itself in a uniquely advantageous position to participate in the future exploration and development of this promising area.

The discovery last year by Atlantic Richfield and Humble Oil and Refining Company of a major oil field at Prudhoe Bay on Alaska's North Slope gave indication of the presence of significant oil reserves in the Arctic region, including the Arctic Islands. The Prudhoe Bay discovery is reported to be potentially the largest yet made in the Western Hemisphere, and may well rank with the great Middle East fields. This discovery has focused increased interest in northern Canada and the Arctic Islands. In the latter area your Company is particularly well entrenched in its land position, since it has interests in over 8,000,000 acres, of which approximately one-half are included in properties farmed out under the Panarctic agreements referred to in previous reports. Recently the Company acquired over 3,700,000 acres of offshore permits in the Arctic Islands which, together with its Panarctic agreement properties, place the Company in the forefront of the Arctic Islands exploration play.

Enclosed with this Report is a map showing the Company's oil and gas interests in Canada, which cover over 9,800,000 gross acres. The map of the Arctic Islands may hold particular interest for Shareholders as a continuing reference guide to future developments in this new exploration frontier.

The Company also recently embarked on a program of mineral exploration in Canada, and is participating in a number of exploratory programs for copper, iron ore, uranium and other minerals. In northern Saskatchewan and northeast Alberta, the Company now holds interests in over 1,800,000 gross acres (over 1,440,000 net acres) of mineral exploration permits in the Athabaska Sandstone basin, extending from Wollaston Lake to Uranium City. Some of these permits are located approximately 60 miles from the recently reported uranium discovery of Gulf Minerals Company and New Continental at Wollaston Lake. This discovery has created considerable interest, and it is reported that other operators will carry out a winter drilling program in several areas of the basin. Exploratory work programs to be carried out by Canada Southern on these newly-acquired permit areas are now in the planning stage. A map showing these mineral prospecting areas is enclosed.

The foregoing summary of developments affecting Canada Southern supplements information previously forwarded to Shareholders in October 1968, which included complete details of drilling and other operations relating to the Company's property interests. An Interim Report will be forthcoming in the spring when results of the current winter drilling program are available.

On behalf of the Board of Directors



President

January 15, 1969

*As a matter of possible interest, there is enclosed a reprint of an article by Ruth Sheldon Knowles which appeared in the issue of The Wall Street Journal for January 6, 1969. Mrs. Knowles, who is a noted writer on petroleum subjects, presents a graphic account of oil exploration in the vast Arctic Archipelago.*

# ACREAGE SUMMARY — DECEMBER 1968

## CANADA

OIL and GAS	Gross Acreage In Which Interest Is Held	NET ACREAGE		
		Held Under Lease	Held Under Permit	Total
British Columbia				
Pacific Agreement				
Working Interest .....	226,027	50,063		
Carried Interest .....	289,382	61,494		
Phillips Agreement — Carried Interest .....	340,565	117,147		
Other .....	141,849	22,299		
Total British Columbia .....	997,823	251,003		251,003
Northwest & Yukon Territories				
Liard Basin				
Dome-Pan Am Agreement — Carried Interest .....	275,267	80,787	43,084	123,871
Other .....	317,801	200,360	44,572	244,932
Total N.W. & Yukon Territories .....	593,068	281,147	87,656	368,803
Arctic Islands				
Panarctic Agreements				
TriCeeTee .....	3,687,097		1,229,032	
Other .....	829,094		786,937	
Total Panarctic Agreements .....	4,516,191		2,015,969	2,015,969
CSP — 100% .....	3,724,741		3,724,741	3,724,741
Total Arctic Islands .....	8,240,932		5,740,710	5,740,710
Total (oil and gas) .....	9,831,823	532,150	5,828,366	6,360,516(1)
MINERALS				
Saskatchewan & Alberta				
Mineral Permits .....	1,803,000		1,448,000	1,448,000(2)
GRAND TOTAL .....	11,634,823	532,150	7,276,366	7,808,516

(1) The Company also has a 1.0125% overriding royalty on 13,008 lease acres in British Columbia and a 5% interest in 76,800 acres in Australia.

(2) The Company also has a right to acquire up to a 20% interest in any mineral prospects developed by Borealis Exploration Limited prior to April 1, 1972. (Borealis holds mineral exploration rights covering approximately 900,000 acres in the Northwest Territories).



## PANARCTIC AGREEMENTS

### Company-interest properties included in Panarctic Agreements

<u>Islands</u>	<u>Gross Acres</u>	<u>%</u>	<u>Net Acres</u>	<u>Panarctic Drilling Obligations(6)</u>
<b>TriCeeTee Agreement</b>				
Prince Patrick, Brock Melville, Emerald, Bathhurst, Ellef Ring- nes, Amund Ringnes, Cornwall, and Axel Heiberg .....	3,687,097	33⅓	1,229,032	Two 10,000-foot test wells
<b>CSP-Clark-Skelly</b>				
Eight Bears .....	57,210	40	22,884	
<b>CSP — B.P.</b>				
Melville .....	62,650	87½	54,819	
<b>CSP</b>				
Axel Heiberg, Ellesmere .....	709,234	100	709,234	At least two 6,000-foot test wells on or in the vicinity of the Company lands
	<u>4,516,191</u>		<u>2,015,969</u>	

### Interests to be retained by the Company

	<u>MINIMUM(1)</u>		<u>MAXIMUM(1)</u>	
	<u>% W.I.</u>	<u>Net Acres</u>	<u>% W.I.</u>	<u>Net Acres</u>
TriCeeTee Agreement (2) .....	6.667	245,819	26.667	983,238
CSP-Clark-Skelly (3) .....	8.000	4,577	29.333	16,781
CSP-B.P. (4) .....	17.500	10,964	64.167	40,201
CSP (5) .....	20.000	141,847	73.333	520,103
		<u>403,207</u>		<u>1,560,323</u>

(1) Depending on Panarctic's actual expenditures in the entire Arctic Islands program, from a minimum of \$20,000,000 to a maximum of \$30,000,000, it can earn from a 20% to 80% working interest in the TriCeeTee properties and from a 26⅓% to an 80% working interest in the other properties.

(2) Convertible to 5.0% up to 11.666% carried interest or 1.333% up to 2.5% overriding royalty.

(3) Convertible to 6.0% up to 12.0% carried interest or 1.6% up to 2.8% overriding royalty.

(4) Convertible to 13.125% up to 26.25% carried interest or 3.5% up to 6.125% overriding royalty.

(5) Convertible to 15.0% up to 30.0% carried interest or 4.0% up to 7.0% overriding royalty.

(6) Based on maximum program.

**CONSOLIDATED BALANCE SHEET**

(Expressed in Canadian dollars)

June 30, 1968 and 1967

**ASSETS AND DEFERRED EXPENDITURES**

	<u>1968</u>	<u>1967</u>
Current assets:		
Cash .....	\$ 55,641	\$ 85,398
Bank deposit receipts .....	475,000	—
Accounts receivable:		
Magellan Petroleum Corporation .....	—	26,283
Other .....	14,534	35,000
Refundable deposits and prepaid expenses .....	21,581	35,470
Total current assets .....	<u>566,756</u>	<u>182,151</u>
Special refundable tax — Government of Canada .....	134,475	125,015
Investments and advances:		
United Canso Oil & Gas Ltd., 84,099 shares of capital stock and warrants to purchase 7,008 shares of capital stock, at cost (market value \$373,751 and \$280,722, respectively) .....	155,091	155,091
Trans-Border Holdings Limited, 50% of capital stock, at cost and advances of \$5,248 .....	117,248	117,248
Other .....	13,975	30,080
Oil and gas permits, leases and interests, including well, geological and geo-physical, lease rental and dry hole costs .....	5,878,633	5,929,703
Other exploratory expenses and general and administrative expenses deferred .....	4,896,766	4,503,970
Land, building and equipment, at cost less accumulated depreciation of \$217,746 and \$210,689, respectively .....	139,286	141,526
	<u>\$11,902,230</u>	<u>\$11,184,784</u>

*The accompanying notes are an integral part of this statement.*



## LIABILITIES AND CAPITAL

	<u>1968</u>	<u>1967</u>
Current liabilities:		
Accounts payable and accrued liabilities:		
The Catawba Corporation .....	\$ 17,945	\$ 25,289
Other .....	97,009	71,643
Current portion of mortgage loan .....	17,000	15,900
Total current liabilities .....	<u>131,954</u>	<u>112,832</u>
7% mortgage loan, maturing February 1974 (secured by land and building), less portion included above .....	95,208	112,240
Capital:		
Capital stock, par value \$1 per share:		
Authorized — 10,000,000 and 8,000,000 shares, respectively		
Outstanding — 6,997,306 and 6,599,706 shares, respectively ....	6,997,306	6,599,706
Capital in excess of par value .....	10,030,381	9,451,840
	<u>17,027,687</u>	<u>16,051,546</u>
Deductions from capital .....	5,352,619	5,091,834
	<u>11,675,068</u>	<u>10,959,712</u>

## Commitments (Note 2)

<u>\$11,902,230</u>	<u>\$11,184,784</u>
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On behalf of the Board:

s/s JOHN W. BUCKLEY, *Director*

s/s M. A. REASONER, *Director*

Year ended June 30, 1967 and 1968

(Expressed in Canadian dollars)

**CONSOLIDATED STATEMENT OF OIL AND  
GAS PERMITS, LEASES AND INTERESTS**

	<b>Balance June 30, 1966</b>
Oil and gas permits, leases and interests (including excess of cost of investment in certain subsidiaries over net assets acquired) .....	\$2,969,545
Cost of standing wells .....	1,546,216
Geological and geophysical expenses .....	681,510
Lease rentals .....	458,754
Dry hole costs .....	136,878
	<u>\$5,792,903</u>

**CONSOLIDATED STATEMENT OF OTHER EXPLORATORY EXPENSES  
AND GENERAL AND ADMINISTRATIVE EXPENSES DEFERRED**

Portion of organization, corporate, general and administrative expenses incurred by predecessor company prior to April 20, 1954 .....	\$1,956,162
Expenses of the Company since April 20, 1954:	
Salaries and employee benefits .....	1,677,381
Financial, technical and other services under contract .....	1,460,129
Legal services .....	762,016
Stockholders' reports and capital stock expenses .....	623,447
Building maintenance and rent .....	457,174
Interest and exchange .....	310,903
Depreciation, depletion and amortization .....	294,932
Intangible drilling costs, lease operating costs and royalties .....	317,654
Travel .....	126,343
Auditing services .....	95,589
Miscellaneous .....	645,919
	<u>8,727,649</u>
Less income received:	
Rent and other income .....	698,217
Oil and gas sales .....	673,779
Technical and administrative services rendered .....	177,863
Payments received from Phillips Petroleum Company on assigned properties less refund .....	37,425
	<u>1,587,284</u>
Total before abandonments and sales .....	7,140,365
Less portion of above expenses considered allocable to interests abandoned or sold .....	3,131,269
	<u>\$4,009,096</u>

<u>Additions and transfers</u>	<u>Abandonments and sales</u>	<u>Balance June 30, 1967</u>	<u>Additions and transfers</u>	<u>Abandonments and sales</u>	<u>Balance June 30, 1968</u>
\$144,205	\$ 50,013	\$3,063,737	\$ 10,566	\$160,577	\$2,913,726
(535)	1,343	1,544,338	15,470	2,886	1,556,922
2,397	27,582	656,325	88,529	43,665	701,189
69,029	44,279	483,504	77,537	29,594	531,447
44,921	—	181,799	(6,433)	17	175,349
<u>\$260,017</u>	<u>\$123,217</u>	<u>\$5,929,703</u>	<u>\$185,669</u>	<u>\$236,739</u>	<u>\$5,878,633</u>
		\$1,956,162			\$1,956,162
\$136,622		1,814,003	\$132,209		1,946,212
190,958		1,651,087	113,037		1,764,124
50,024		812,040	34,601		846,641
41,456		664,903	83,792		748,695
48,430		505,604	47,833		553,437
13,615		324,518	8,180		332,698
15,441		310,373	17,025		327,398
1,695		319,349	7,108		326,457
3,588		129,931	2,938		132,869
14,039		109,628	15,039		124,667
51,158		697,077	35,210		732,287
<u>567,026</u>		<u>9,294,675</u>	<u>496,972</u>		<u>9,791,647</u>
42,342		740,559	65,975		806,534
3,730		677,509	11,056		688,565
2,320		180,183	213		180,396
—		37,425	—		37,425
<u>48,392</u>		<u>1,635,676</u>	<u>77,244</u>		<u>1,712,920</u>
518,634		7,658,999	419,728		8,078,727
	\$ 23,760	3,155,029		\$ 26,932	3,181,961
<u>\$518,634</u>	<u>\$ 23,760</u>	<u>\$4,503,970</u>	<u>\$419,728</u>	<u>\$ 26,932</u>	<u>\$4,896,766</u>



## CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF WORKING CAPITAL

(Expressed in Canadian dollars)

Year ended June 30, 1968 and 1967

	<u>1968</u>	<u>1967</u>
Source of working capital:		
Sales of capital stock (net) .....	\$976,141	\$ 793,878
Depreciation of building and equipment .....	14,783	12,652
Proceeds from sales of equipment .....	2,886	3,685
	<u>993,810</u>	<u>810,215</u>
Disposition of working capital:		
Additions to other exploratory expenses and general and administrative expenses deferred .....	419,728	518,634
Additions to oil and gas permits, leases and interests .....	185,669	260,017
Decrease in 7% mortgage loan .....	17,032	15,873
Additions to building and equipment .....	12,543	5,619
Increase in special refundable tax .....	9,460	125,015
Increase (decrease) in investments .....	(16,105)	56,854
	<u>628,327</u>	<u>982,012</u>
Increase (decrease) in working capital .....	<u>\$365,483</u>	<u>\$(171,797)</u>

## NOTES TO FINANCIAL STATEMENTS

June 30, 1968

## 1. Basis of the financial statements

The accompanying consolidated financial statements include the accounts of Canada Southern Petroleum Ltd. (Canada Southern) and its wholly-owned subsidiaries, Act Oils Limited (Act Oils) and Rampart Petroleums Ltd., hereafter referred to collectively as the Company.

The properties in which the Company has interests are in an exploratory or development stage and, accordingly, all expenditures (less income) of these companies have been capitalized or deferred except that costs and expenses applicable or considered allocable to areas abandoned and other losses, net of profits on sales of certain interests and the excess of Canada Southern's equity in net assets of Act Oils over its investment at acquisition, have been deducted from capital. Realization of the amounts represented by oil and gas permits, leases and interests and other exploratory expenses and general and administrative expenses deferred is dependent upon future developments.

Deductions from capital for the year ended June 30, 1968 and 1967 are summarized as follows:

	<u>1968</u>	<u>1967</u>
Losses on abandonments or sales of interests:		
Prior years (including losses on former operations in the United States) .....	\$10,548,964	\$10,405,672
Year ended June 30 .....	260,785	143,292
	<u>10,809,749</u>	<u>10,548,964</u>
Profits on sales of certain interests — prior years .....	4,547,739	4,547,739
Excess of Canada Southern's equity in net assets of Act Oils over its investment at acquisition .....	909,391	909,391
	<u>5,457,130</u>	<u>5,457,130</u>
Deductions from capital .....	<u>\$ 5,352,619</u>	<u>\$ 5,091,834</u>

## 2. Properties and related exploratory and other expenses

The Company's principal properties and property interests are located in British Columbia, the Yukon and Northwest Territories, the Arctic Islands and Australia.

At June 30, 1968, most of the acreage located in British Columbia and the Yukon and Northwest Territories was covered by carried (net profits) interest agreements. These carried interest agreements provide that profits are not payable to the Company until expenditures by the operators have been recouped from production. Also, the Company may at any time elect to convert its position from a carried interest to a working interest by paying its share of the expenditures not recouped by profits from production. At June 30, 1968, the accumulated expenditures by the operators attributable to the Company's carried interests substantially exceeded the amounts recouped from production.

At June 30, 1968, the Company's share of the cost of a standing well, completed as a discovery on a permit in the Yukon during the year ended June 30, 1965 at which time the Company had a 45% working interest, amounted to \$1,130,147. It is anticipated that a significant amount of rework will be necessary to bring this well to production.

No provision for amortization of the amount carried for oil and gas permits, leases and interests or for other exploratory expenses and general and administrative expenses deferred is included in the accompanying consolidated financial statements. Depreciation has been provided for building and equipment by the straight-line method based on estimated useful lives. Depreciation of well equipment and amortization of intangible drilling costs pertaining to producing wells is computed by the unit-of-production method.

## NOTES TO FINANCIAL STATEMENTS — Continued

June 30, 1968

Lease rentals, work requirements and deposits in connection with the properties and property interests held by the Company at June 30, 1968 approximates \$320,000 for the year ending June 30, 1969.

In May 1968, the Company entered into an agreement with Catawba International, Inc., a subsidiary of The Catawba Corporation, under which the Company committed itself to acquire \$225,000 face amount of non-interest bearing debentures and certain shares of a new company to be formed by Catawba International, Inc. in exchange for \$75,000 in cash plus two \$75,000 non-interest bearing notes payable. The new company will engage in mineral exploration in northern Canada.

### 3. The Catawba Corporation

The amounts shown in the consolidated statement of other exploratory expenses and general and administrative expenses deferred for financial, technical and other services under contract represent charges from The Catawba Corporation (Catawba). Canada Southern's current (expiring July 1973) and prior contracts with Catawba have provided for payments based on services rendered and the granting of a 1/64th overriding royalty on all properties acquired by Canada Southern during the term of the contract. The contracts also have provided for special compensation for services rendered not contemplated under the contracts. Catawba provides similar services to Magellan Petroleum Corporation and United Canso Oil & Gas Ltd. Certain of the stockholders, officers and employees of Catawba are directors, officers and/or stockholders of Canada Southern and the other companies mentioned above.

### 4. Capital and stock options and reservations

During the year ended June 30, 1968, the Company sold 397,600 shares of its capital stock realizing net proceeds of \$976,141. During the year ended June 30, 1967, the Company sold 352,400 shares of its capital stock realizing net proceeds of \$793,878. The par value of the shares sold, \$397,600 and \$352,400, respectively, was added to capital stock and the balance, \$578,541 and \$441,478, respectively, was added to capital in excess of par value. There were no other changes in the capital stock or capital in excess of par value of the Company during the two years ended June 30, 1968.

On April 11, 1967, the Company's stockholders approved an incentive stock option plan authorizing the Board of Directors to grant options on 300,000 shares of the Company's capital stock. On January 8, 1968, options to purchase shares were granted to The Catawba Corporation for 150,000 shares and to employees for 58,000 shares at an option price of \$3.50 (U.S.) per share. The market price at date of grant was \$3.50 (U.S.) per share. The options vest and become exercisable to the extent of 35% beginning January 8, 1969, an additional 35% beginning January 8, 1970 and the remaining 30% beginning January 8, 1971.

At June 30, 1968, none of the above-mentioned options on 208,000 shares was exercisable and all of these options expire on January 7, 1973. In addition, there were 115,000 shares reserved for future option grants at June 30, 1968. There were no other changes in stock options during the year ended June 30, 1968.

### 5. Allocated expenses and compensation

Certain employees and office facilities are shared with United Canso Oil & Gas Ltd. and certain of the general and administrative expenses represent allocated portions of common expenses. Compensation of directors, officers and senior employees and contributions to a pension plan on their behalf allocated to or paid directly by Canada Southern amounted to \$84,219 and \$4,374, respectively, for the year ended June 30, 1968.

### 6. Event subsequent to the date of Auditors' Report

Canada Southern filed a Registration Statement, which became effective on October 28, 1968, with the Securities and Exchange Commission for the registration of 2,369,593 shares of its capital stock and related Transferable Subscription Rights and Bearer Purchase Warrants. Units representing 1,259,050 shares and Bearer Purchase Warrants for an additional 629,525 shares were sold thereunder.



## AUDITORS' REPORT

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The Board of Directors and Stockholders

CANADA SOUTHERN PETROLEUM LTD.

We have examined the accompanying consolidated balance sheet of Canada Southern Petroleum Ltd. and subsidiaries at June 30, 1968, the related consolidated statements of oil and gas permits, leases and interests and of other exploratory expenses and general and administrative expenses deferred and the consolidated statement of source and disposition of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to such adjustment as would result from failure to recover in the future the amounts at which oil and gas permits, leases and interests and other exploratory expenses and general and administrative expenses deferred are carried in the consolidated balance sheet (see Note 1), the statements mentioned above present fairly the consolidated financial position of Canada Southern Petroleum Ltd. and subsidiaries at June 30, 1968, the consolidated changes in oil and gas permits, leases and interests and in other exploratory expenses and general and administrative expenses deferred and the source and disposition of their consolidated working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG, CLARKSON, GORDON & CO.

New York, N. Y.

August 9, 1968

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Mr. W. W. W.



**Canada  
Southern  
Petroleum  
Ltd.**



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*Inquiries or requests for additional information concerning Canada Southern Petroleum Ltd. should be addressed to the Company in care of The First National Bank of Jersey City, One Exchange Place, Jersey City, N. J. 07303, or to 505 Eighth Avenue South West, Calgary, Alberta, Canada.*

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**Interim  
Report to Stockholders, March 1968**



# Canada Southern Petroleum Ltd., Interim Report to Stockholders, March 1968

## *To The Stockholders:*

With the 1968 drilling season under way, your Company can now report upon current and prospective developments affecting properties owned by Canada Southern in British Columbia, the Northwest and Yukon Territories, and the Arctic Islands. A detailed review of exploratory and other activities on these Company-interest lands is contained in succeeding sections of this report.

A major development, which has been widely publicized in the world press, centers on the consortium of 20 Canadian oil and mining companies which, with the active participation and financial support of the Canadian government, will inaugurate next month a minimum three-year, \$20-million exploration program in the Arctic Islands. A substantial part of the work program to be initiated by the consortium is located on or in the vicinity of Canada Southern-interest lands.

The program, to be carried forward by Pan-arctic Oils, Ltd., ranks as the largest oil search yet undertaken in the Arctic and marks the first commitment ever made by the Canadian government to engage in exploration for hydrocarbons and other minerals as a co-investor in partnership with private interests.

Your Company's agreements with Panarctic, the details of which are outlined in a succeeding section of this report, accord to Panarctic the right to earn an interest in Canada Southern's Arctic lands covering some 4,500,000 gross acres (2,015,969 net acres), in return for that company's undertaking, under the maximum work program, to keep the majority of the lands in good standing until June 1972 and to drill two 10,000-foot exploratory tests on the TriCeeTee Group holdings (CSP, 33½%) and at least two 6,000-foot exploratory tests on or in the vicinity of Canada Southern's 100 percent holdings.

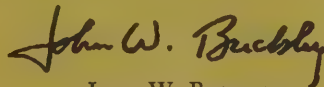
Elsewhere in Canada, interest presently is focused on the Liard Basin area of northeast British Columbia and the Yukon and Northwest Territories, where the Beaver River, Pointed Mountain, North Beaver River and Celibeta discoveries are located. Drilling activity in this broad area, target of a 110-mile pipeline extension program announced last year by Westcoast Transmission Company Limited, is proceeding at a quickened pace following last month's settlement of a prolonged dispute between the Canadian National Energy Board and the U.S. Federal Power Commission over the pricing of Canadian gas exports to the U.S. The compromise agreement covers exports to the U.S. of an additional 200,000,000 cubic feet daily of natural gas to be supplied by Westcoast Transmission.

Consummation of the gas pricing agreement is widely regarded as providing special impetus for rapid completion of the Westcoast Transmission pipeline extension north and west from Fort Nelson to the Liard Basin, and for greatly expanded exploratory activity in this promising area. Canada Southern-interest properties in the Liard Basin area consist of approximately 833,000 acres (424,000 net acres).

Early last December Canada Southern announced completion of a public offering of 750,000 shares of capital stock of the Company, the net proceeds of which amounted to \$1,811,770. This additional capital has been utilized for payment of expenses of properties in British Columbia and the Yukon Territory, for part payment of the Company's working interest in its Australian properties, and for current operations and exploratory expenses.

The following pages provide a review of exploratory and development operations affecting the Company's interests in the interim since the issuance of the 1967 Annual Report last October.

On behalf of the Board of Directors,



JOHN W. BUCKLEY

President

March 29, 1968

## REVIEW OF OPERATIONS

### BRITISH COLUMBIA

#### Fort Nelson Area

Pacific Petroleums, Ltd. has commenced drilling the Pacific S. R. CanDel Akue d-18-B well on Permit No. 234 (CSP, 27.75% carried interest), which is located 27 miles southwest of Fort Nelson. The well is scheduled to test formations down to and including the Middle Devonian.

#### Flatrock Area

The Company recently participated in the IOE et al. Flatrock 5-20 well, which was drilled in the Flatrock area, some 20 miles east of Fort St. John, on Permit No. 98 (CSP, 13.75% working interest). The well was dry and abandoned after drilling to the Mississippian.

#### Peejay Area

One dry hole, Pacific S.R. CanDel Kestrel d-42-J, was drilled on Company lands in the Peejay area where Canada Southern has a 27.75 percent carried interest. The 29 oil wells in which the Company has an interest produced an average 846 barrels of oil daily (before royalty) for the Company's carried interest account during the six months ended December 31, 1967.

#### Fort St. John Area

There has been considerable activity in recent months on and around Permit No. 135 (CSP, 1.66% carried interest). Interest in the area results from the discovery of oil in the Inga Sand (Triassic) in the vicinity of the western part of the permit, which is situated some eight miles northwest of Fort St. John. Shenandoah et al. Coplin 6-17-86-23 W/6th on Lease 707 is a potential Inga sand oilwell; two wells offsetting

this lease are completed oil wells, and three other wells are presently drilling offsetting this lease. Western Decalta also has drilled a potential Inga sand oil well offsetting Lease 700. Apache and Pacific drilled a potential Belloy (Permian) gas well on Lease 705. Several other wells will be drilled close to Canada Southern's interest leases in this area.

### YUKON AND NORTHWEST TERRITORIES

#### Liard Basin

Pan American Petroleum Corp.'s Beaver River c-45-K well, two miles south of the original Beaver River discovery, reportedly has been completed as a gas well. No details have been released, but some measure of the well's significance can be drawn from the fact that the potential gas pay was topped at 11,885 feet and at 14,732 feet the well was still in the same zone. The well is nine miles south of Permit 1007 in which Canada Southern has a 45 percent carried interest. Pan American has announced plans to drill a new well approximately one and one-half miles southwest of the c-45-K well.

Meantime, Pan American's Pointed Mountain K-45 well, approximately two miles north of that company's Pointed Mountain P-53 discovery well, is now drilling below 11,680 feet. The K-45 test is 12 miles northwest of Lease 210-67 (CSP, 45% carried interest) and 11 miles north of Lease 211-67 (CSP, 90% working interest).

Drilling activity in the Liard Basin is proceeding at an intensified rate following the resolution in mid-February of pricing problems which for several months had forestalled consummation of the gas sales contract concluded last year between Westcoast Transmission Company Limited and El Paso Natural Gas Company.



The compromise price of 30.5¢ per thousand feet was agreed on only after prolonged study by the appropriate U.S. and Canadian regulatory bodies. This is the third contract to be entered into between Westcoast Transmission and El Paso Natural Gas and raises the company's export-import arrangements to the level of 500,000,000 cubic feet daily. Upon conclusion of this latest agreement, Westcoast Transmission announced plans for rushing to completion this year an \$80,000,000 expansion program including additions to that company's Fort Nelson processing plant and commencement of work on a new 110-mile pipeline extension to the Liard Basin north and west of Fort Nelson. Completion of the program this year will result in a step-up of that company's mainline capacity to 950,000,000 cubic feet daily, representing an increase of 200,000,000 cubic feet daily to provide for expanded export requirements as well as the growing needs of domestic consumption.

The implications of this series of developments for future exploration in northern British Columbia, the Yukon and Northwest Territories are such as to assure unprecedented gas search activity in this prolific area where your Company owns interests in approximately 833,000 gross acres (424,000 net acres).

#### **Celibeta Area**

The Dome Pan Am Almx CSP Celibeta C-77 well (CSP, 45% carried interest), which was drilled two miles south of the Celibeta No. 2 Slave Point gas well, was dry and abandoned. Another well, Dome Pan Am Almx CSP Island River E-56, is now drilling on Permit 1149 (CSP, 45% carried interest) in the area south of Trout Lake.

#### **ARCTIC ISLANDS**

A consortium comprised of 20 Canadian oil and mining companies and the Canadian government has pooled \$11,000,000 in private capital with \$9,000,000 in government funds for the purpose of launching a minimum three-year, \$20,000,000 exploration program on some 35,000,000 acres in the Arctic Archipelago. The program, to be carried forward by a jointly-held company, Panarctic Oils, Ltd., is scheduled to get under way next month.

The original agreements affecting Canada Southern-interest lands in the Arctic have been modified in the interim since the last report to the Company's stockholders was issued last October. Under the agreements, as amended, the amount of the interest to be earned by Panarctic in Canada Southern's various holdings will depend on the actual sums expended in the over-all program and on the Company's holdings.

With the proposed minimum expenditures of \$20,000,000, the Company is assured that at least one 10,000-foot test will be drilled on its 33⅓ percent-owned TriCeeTee properties, which cover 3,687,000 acres. At least one 6,000-foot test will be drilled on or in the vicinity of the Company's 100 percent-owned lands covering 709,000 acres.

The Company is thus assured of a very meaningful exploratory program, financed by others, on its Arctic Islands properties. Under the agreements, the Company will retain a minimum of 403,000 net acres to as much as 1,560,000 net acres in the Company-interest properties, which cover approximately 4,514,000 gross acres. The terms of the agreements as amended are summarized on the following page.

## PANARCTIC AGREEMENTS

### Company-interest properties included in Panarctic Agreements

<u>Islands</u>	<u>Gross Acres</u>	<u>%</u>	<u>Net Acres</u>	<u>Panarctic Drilling Obligations(6)</u>
<b>TriCeeTee Agreement</b>				
Prince Patrick, Brock Melville, Emerald, Bathhurst, Ellef Ringnes, Amund Ringnes, Cornwall, and Axel Heiberg	3,687,097	33 1/3 %	1,229,032	Two 10,000-foot test wells
<b>CSP-Clark-Skelly</b>				
Eight Bears .....	57,210	40%	22,884	
<b>CSP — B.P.</b>				
Melville .....	62,650	87.5%	54,819	
<b>CSP</b>				
Axel Heiberg, Ellesmere .....	709,234	100%	709,234	At least two 6,000-foot test wells on or in the vicinity of the lands
	<u>4,516,191</u>		<u>2,015,969</u>	

### Interests to be retained by the Company

	MINIMUM(1)		MAXIMUM(1)	
	<u>% W.I.</u>	<u>Net Acres</u>	<u>% W.I.</u>	<u>Net Acres</u>
TriCeeTee Agreement (2) .....	6.667	245,819	26.667	983,238
CSP-Clark-Skelly (3) .....	8.0	4,577	29.333	16,781
CSP-B. P. (4) .....	17.5	10,964	64.167	40,201
CSP (5) .....	20.0	141,847	73.333	520,103
		<u>403,207</u>		<u>1,560,323</u>

(1) Depending on Panarctic's actual expenditures in the entire Arctic Islands program, from a minimum of \$20,000,000 to a maximum of \$30,000,000, it can earn from a 20% to 80% working interest in the TriCeeTee properties and from a 26 2/3% to an 80% working interest in the other properties.

(2) Convertible to 5.0% up to 11.666% carried interest or 1.333% up to 2.5% overriding royalty.

(3) Convertible to 6.0% up to 12.0% carried interest or 1.60% up to 2.8% overriding royalty.

(4) Convertible to 13.125% up to 26.25% carried interest or 3.50% up to 6.125% overriding royalty.

(5) Convertible to 15.0% up to 30.0% carried interest or 4.0% up to 7.0% overriding royalty.

(6) Based on maximum program.



# ACREAGE SUMMARY—JANUARY 1, 1968

## CANADA

	Gross Acreage in Which Interest Is Held	Held Under Lease	NET ACREAGE(1) Held Under Permit	Total
<b>British Columbia</b>				
Pacific Agreement				
Working Interest .....	295,608	64,790		
Carried Interest .....	344,589	73,225		
Phillips Agreement — Carried Interest .....	342,136	117,584		
Other .....	140,278	20,728		
Total British Columbia .....	1,122,611	276,327		276,327
<b>Northwest &amp; Yukon Territories</b>				
Liard Basin				
Dome-Pan Am Agreement — Carried Inter- est .....	666,420	29,134	270,755	299,889
Other .....	166,762	64,426	60,376	124,802
Total Liard Basin .....	833,182	93,560	331,131	424,691
Fort Good Hope Area .....	152,838	—	133,734	133,734
Total N.W. & Yukon Territories .....	986,020	93,560	464,865	558,425
<b>Arctic Islands</b>				
Panarctic Agreements				
TriCeeTee .....	3,687,097		1,229,032	
Other .....	827,094		786,937	
Total Arctic Islands .....	4,514,191		2,015,969	2,015,969
TOTAL CANADA .....	6,622,822	369,887	2,480,834	2,850,721

## AUSTRALIA

### Northern Territory

Orange .....	76,800		3,840	3,840
GRAND TOTAL .....	6,699,622	369,887	2,484,674	2,854,561

(1) The Company also has a 1.0125% overriding royalty on 13,008 lease acres in British Columbia.

